

A new day for TVA



The new board being sworn in: from left, Mike Duncan of Inez, Ky.; Howard Thrailkill of Huntsville, Ala.; Susan Richardson Williams of Knoxville; Don DePriest of Columbus, Miss.; Dennis Bottorff of Nashville; and Bill Sansom of Knoxville

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New board holds historic first meeting

Minutes after the six new TVA Board members were sworn in to office March 31, Bill Baxter convened the first TVA public meeting and made opening comments.

"It is an honor to call to order the first meeting of this newly expanded board of directors of TVA," he said.

"This is a historic occasion because it represents the first reform and updating of the governing structure of this entity in its 73-year history.

"The new governance structure is a part-time non-executive board, setting major policies, approving annual budgets and setting wholesale electric rates for the Tennessee Valley. This board will name a full-time chief executive officer to run TVA on a day-to-day basis.

"I'm convinced it will allow TVA to operate more efficiently, with more internal accountability and greater external responsiveness to our customers and to the marketplace."

Joining Baxter and Skila Harris on the board are Dennis Bottorff of Nashville; Don DePriest of Columbus, Miss.; Mike Duncan of Inez, Ky.; Bill Sansom of Knoxville; Howard Thrailkill of Huntsville, Ala.; and Susan

Richardson Williams of Knoxville.

"Skila and I are proud to have these six new board members join us on the board and to present TVA on this day of transition in such a strong and healthy condition. TVA is well-positioned on March 31, 2006."

Baxter pointed to TVA's diverse generation mix, operational excellence, economic-development progress, debt-reduction efforts and employee productivity as examples of TVA's solid condition.

"I am proud of the performance of the 12,900 TVA employees," he said.

Baxter then moved directly to the first order of business of the new board — the election of a new non-executive chairman.

Sansom elected chairman

"As the last full-time chairman of TVA, I believe it's important that we have a clean break from the old governing structure," said Baxter. "It's important that we make it clear this is a new beginning, and I believe it's best to elect a new person to be the new board chairman, who will play a role that's new and different from that in the past.

"For me personally, it's been an

honor to serve on the board with Skila for the past 4½ years, and I'm proud to bring TVA to this day in a strong and healthy condition."

Harris agreed.

"This is a historic occasion. It has been an honor for me to serve on the TVA Board," she said. "One of the most inspirational and heartening parts of this experience has been the loyalty, the hard work and general dedication of the TVA employees. I want to add my thanks to Bill's for the accomplishments for this group of people, to thank them for their service and to encourage them to continue the excellence they have achieved."

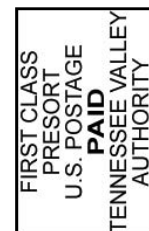
When Baxter called for nominations, Howard Thrailkill commended Baxter for his service and entered Bill Sansom as a candidate for chairman. Mike Duncan seconded, and the board unanimously elected Sansom.

"Thank you," Sansom said. "I look forward to working with you all. I also want to thank Skila and Bill for doing this job so well."

Sansom said the board would operate differently than past full-time boards.

"This board will continue to lis-

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The TVA Board

"I do solemnly swear that I will support and defend the Constitution of the United States against all enemies, foreign and domestic; that I will affirm support for the objectives and missions of the Tennessee Valley Authority, including being a national leader in technological innovation, low-cost power and environmental stewardship; that I take this obligation freely, without any mental reservation or purpose of evasion; and that I will well and faithfully discharge the duties of the office on which I am about to enter, so help me God."

These were the words spoken by United States District Court Judge Tom Varlan and repeated by the new TVA Board members as they were officially sworn in March 31 in the Knoxville Convention Center. After the swearing in and the signing of official paperwork, the new directors took their places at the table alongside Bill Baxter and Skila Harris for the first meeting of the new, expanded TVA Board.



Bill Sansom, chairman

Chairman William B. Sansom of Knoxville is chairman and chief executive officer of The H.T. Hackney Co. and has held that position since 1983. Hackney is a diversified company involved in wholesale grocery, gas and oil, and furniture manufacturing. His term expires May 18, 2009.



Mike Duncan

Mike Duncan of Inez, Ky., is chairman, chief executive officer and director of Community Holding Co.; chairman, CEO and director of Inez Deposit Bank; and general counsel of the Republican National Committee. He is a director of the regional Center for Rural Development. His term expires May 18, 2011.



Bill Baxter

Bill Baxter of Knoxville is chairman of Holston Gases Inc., a distributor of industrial, medical and laboratory gases. He was named to the TVA Board as a full-time Director in 2001 and served as TVA Chairman from June 2005 through March 2006. His term expires May 18, 2011.



Skila Harris

Skila Harris, a native of Bowling Green, Ky., served as a full-time TVA Director from November 1999 through March 2006. She previously held positions in the U.S. Department of Energy, the White House and energy-management and engineering-consulting firms. Her term expires May 18, 2008.



Dennis Bottorff

Dennis Bottorff of Nashville serves as chairman and partner of Council Ventures, a venture capital firm. He was chairman of AmSouth Bancorporation in Nashville until his retirement in 2001 and previously was chief executive officer of First American Bank. His term expires May 18, 2011.



Howard Thrailkill

Howard Thrailkill of Huntsville, Ala., recently retired as president and chief operating officer of Adtran, Inc., in Huntsville, which supplies equipment for telecommunications service providers and corporate end-users. Previously, he was president and chief executive officer of the firm Floating Point Systems. His term expires May 18, 2010.



Don DePriest

Don DePriest of Columbus, Miss., is chairman of a venture capital firm headquartered in Alexandria, Va. The firm has founded or invested in such companies as American Telecasting, now merged with Sprint; his Charisma Communications Corp. was a pioneer in the cellular phone business. He previously chaired the Columbus, Mississippi, Utilities Commission. His term expires May 18, 2009.



Susan Richardson Williams

Susan Richardson Williams of Knoxville, Tenn., provides public relations consulting services through SRW & Associates for clients that range from major corporations to high-tech companies. She has served in the Cabinet of two Tennessee governors, on the staff of a third, and on the staff of a U.S. Senator. Her term expires May 18, 2007.



FACTS ABOUT THE TVA BOARD RESTRUCTURING

In December 2004, President Bush signed Congress' "omnibus" spending bill, which included legislation on TVA Board governance

The board restructuring will not result in any changes to the mission of TVA. TVA's fundamental nature and mission to provide affordable, reliable power; be good stewards of the environment; and foster economic development will remain the same.

The following are facts of the restructuring:

- Board members were appointed by the President of the United States and confirmed by the Senate. One seat remains open.
- Current board members Bill Baxter and Skila Harris

will serve out their terms.

- The chairman, Bill Sansom, was selected by fellow board members.
- New board members were appointed for five-year terms on a staggered basis. No term limits will apply.
- At least seven of the board members must be legal residents of the TVA service area.
- The board will meet a minimum of four times a year.
- The board members will conduct a national search for a chief executive officer for TVA.
- The board will determine policy issues and establish broad goals, while the CEO will direct the day-to-day TVA operations.

A bit of TVA history



TVA's first Board of Directors was charged with the task of implementing President Roosevelt's ambitious plans for the Tennessee Valley. From left are Director Harcourt A. Morgan, Chairman Arthur E. Morgan and Director David E. Lilienthal in about 1934.

Frist applauds swearing in of new board members

United States Senate Majority Leader Bill Frist wrote and secured passage of legislation that restructured the board to meet 21st century challenges and reflect the management organization of similar corporations. That legislation expanded the board from three full-time members to nine part-time members.

"This is an historic day that marks the beginning of a new era for TVA," Frist said after the six new board members were sworn in to

office March 31, joining Bill Baxter and Skila Harris on the board.

"I began working to modernize TVA's board nine years ago, and I'm confident the new structure will serve TVA's ratepayers well. My commonsense reform requires all new board members to possess management expertise and strong business experience. Each of these individ-



Sen. Bill Frist

uals certainly brings those characteristics to the table, and their commitment to the Valley and its residents is honorable.

"I also congratulate Bill Sansom on his election as board chairman. I look forward to working with Chairman Sansom and the entire board as they lead TVA to address the challenges of the 21st century."

Frist also recognized Baxter's

service as TVA chairman.

"Bill has guided TVA with a steady hand during this time of change and can lay claim to a solid record of achievement," Frist said.

"He has made the continued reduction of TVA's debt a priority, worked to bring the Browns Ferry plant back online on time and on budget, and made progress in improving the Tennessee Valley's air quality. Bill has truly served the people of the Valley with great distinction."

Senators comment on Board nominees

The Senate Committee on Environment & Public Works conducted a hearing Feb. 8 to consider the pending nominations of the six new TVA Board members. Sens. James Inhofe, James Jeffords, Johnny Isakson and John Warner were among those presiding at the hearing. Sens. Thad Cochran and Trent Lott of Mississippi, Bill Frist and Lamar Alexander of Tennessee, Mitch McConnell and Jim Bunning of Kentucky and Jeff Sessions of Alabama introduced the nominees from their respective states.

"I have never seen a more impressive bunch of bios," said Inhofe, who is chair of the committee. "I have read them all, and I just can't believe that they are willing to take this time to serve their country. I just applaud them in advance. I am looking forward to working with them."

"I have never seen this many senators show up to say so many good things about so many good people."

"I have been very pleased with the current board. ... They have all served the people very well and worked to serve the best interests of those in the Valley. I want to publicly voice my gratitude to them."

Alexander said, "I am chairman of the TVA Congressional Caucus, and I am hopeful that with this new board, that our caucus can be more active and work together better to make sure that people in our region are better served. So I am delighted that we are moving from a committee of good people to a part-time board, a modern governance structure and a full time chief executive officer to run the nation's largest public utility. I expect the citizens of the Tennessee Valley and especially my state of Tennessee to benefit from that by having better incomes and cleaner air and a more secure future."



Chairman Sansom meets with customers

Newly elected TVA Chairman Bill Sansom (left) talks with distributor customers Billy Ray, Glasgow (Ky.) Electric Plant Board superintendent, and Joseph Lee, president & chief executive officer of Memphis Light, Gas & Water at the March 31 TVA Board meeting.

"This board will continue to listen to customers and to employees, but it will be much different, because we are not involved in day-to-day operations," Sansom said. "This is a huge step to have a corporate board running TVA, making policy and determining strategy." (See "A new day for TVA" on page 1.)



Immediately after Bill Sansom (fifth from left) was elected new TVA chairman, fellow board members Mike Duncan, Howard Thrailkill, Susan Richardson Williams, Bill Baxter, Don DePriest, Dennis Bottorff and Skila Harris offer their congratulations.

Board meeting

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day-to-day operations,” Sansom said. “This is a huge step to have a corporate board running TVA, making policy and determining strategy.”

The final agenda item was to consider the new board’s operational

structure.

Sansom recommended that a By-Laws Committee be set up and asked DePriest to head the committee.

Next meeting in Kentucky

Harris then suggested that, because

of the challenges TVA is facing with its distributor customers in Kentucky, the board’s next meeting take place in Kentucky.

Mike Duncan, also a Kentuckian, seconded the motion, which was unanimously adopted.

Tom Kilgore named acting chief executive officer

At the first meeting of the newly expanded board, Director Mike Duncan noted that it was important for TVA to move forward as quickly as possible under the new governance.

“This is a magic moment for us as we’ve evolved from a governance board of three people to a corporate governance board,” he said. “I make a motion

to reaffirm Tom Kilgore as president & chief operating officer and vest with him the authority of acting chief executive officer.”

Duncan’s motion was unanimously adopted.

Chairman Bill Sansom then invited Kilgore to present his first Business Operations briefing to the newly expanded board.

Kilgore first talked about temperatures so far in fiscal year 2006. He said TVA has been 5 percent above normal. Power sales and net generation have been about 95 percent of plan and runoff water in the river system has been 60 percent of plan.

Kilgore said fuel prices, coal delivery, generation forced outages, the mild winter and low rainfall/runoff are currently operational hardspots.



Tom Kilgore,
president & acting chief executive officer

He compared the price for TVA electricity to price increases in 10 fuel sources between 2004 and the present, showing that TVA electricity increased less in price than gasoline, fuel oil and several varieties of coal.

Kilgore also talked about changes in TVA’s cash balance from the rate review last summer through February 2006.

“Starting out with \$613 million, the cash balance was decreased a total of \$250 million because of unexpected increases in fuel and purchased power, along with another \$116 million because of lower revenues,” he said. “Despite \$213 million in savings

from lower operations-and-maintenance and capital-project costs, the cash balance stands at \$218 million. This is a fairly low cash balance for a corporation TVA’s size.”

For the spring/summer outlook, Kilgore said the power system is expecting summer peaks between 31,000 and 33,000 megawatts. The record peak last summer was just under 32,000 megawatts.

“Spring maintenance wraps up in late May, well before the summer peak season,” he said. “Fuel inventories are at typical levels. Potential risks for the summer include above-normal temperatures, below-normal rainfall, and the price and delivery of fuel and purchased power.”

OPERATIONAL HIGHLIGHTS

Economic development — TVA has been named the nation’s No. 1 utility in economic development by *Business Facilities* magazine. Tom Kilgore noted the importance of TVA’s economic-development partners across the Tennessee Valley, including the regional industrial development associations.

Reliable delivery to customers — TVA has achieved 99.999-percent reliability six years running. In practical terms, this means each customer averages six minutes or less of interruptions per year. Last year, the actual average was 3.34 minutes.

Clean-air progress — TVA’s fossil plants had their lowest year on record for emissions and their third-highest year of generation effort. TVA will continue working for even cleaner air by placing in service a selective catalytic reduction, or SCR, system at Kingston and a scrubber at Paradise this summer.

Nuclear-plant performance index ahead of plan — TVA’s nuclear units, as measured by the Institute of Nuclear Power Operations, or INPO, index, are performing year to date at 94.2 percent, 3 percent ahead of plan.

Browns Ferry Nuclear Plant Unit 1 restart progress — The \$1.8-billion project, which will add 1,250 megawatts of low-cost, emission-free power to the TVA system, remains on budget and on schedule to start operations in May of 2007.

Hydroelectric system readiness — TVA’s hydro system has achieved 99-percent availability, greatly exceeding the North American Electric Reliability Council five-year average of 95.15 percent.